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Anglo-Canadian Telephone Company

715 VICTORIA SQUARE, MONTREAL 126, P.Q.



ANNUAL REPORT 1972

ANGLO-CANADIAN TELEPHONE COMPANY (Incorporated under the Quebec Companies Act)

Directors

BASILE A. BÉNÉTEAU
ROGER CHARBONNEAU
JAMES J. CLERKIN, JR.
JOHN H. E. COLBY
JOHN J. DOUGLAS

THEODORE S. GARY
CAMERON HOUGH
DAVID L. TORREY
LESLIE H. WARNER

Officers

JOHN J. DOUGLAS
President
THEODORE S. GARY
Vice-President
CAMERON HOUGH
Vice-President and Treasurer

WILFRED R. JOYCE
Secretary
HAROLD H. HOWLETT
Assistant Secretary
RICHARD F. HARDY
Assistant Treasurer

Transfer Agents and Registrars

CUMULATIVE PREFERRED STOCK

The Royal Trust Company, Montreal, P.Q., Canada
Co-Transfer and Co-Registrar Offices at
Toronto, Winnipeg, Vancouver, Saint John, Halifax and Calgary

COMMON STOCK

The Company

ANGLO-CANADIAN TELEPHONE COMPANY

To the Shareholders:

March 20, 1973

Submitted herewith is the Thirty-Eighth Annual Report of Anglo-Canadian Telephone Company covering operations of the Company and its subsidiaries for the year 1972, with comparative results for the preceding year.

Consolidated operating revenues amounted to \$283,260,000 in 1972 compared with \$245,561,000 in 1971, a gain of 15%. Consolidated net income increased 23% to \$18,298,000, and consolidated total assets passed the \$1 billion mark at year-end.

The growth in the number of telephones in service in the Company's telephone operating subsidiaries amounted to 104,278, the largest single-year gain ever experienced, which brought total telephones in service to 1,420,459. The impressive demand for new and improved service was reflected in gross expenditures for new telephone plant of \$159,000,000, as compared with \$136,000,000 in 1971. Construction programs, as now planned for the year 1973, approximate \$192,000,000.

Serving virtually all of the telephones in the fastest-growing province in all of Canada, British Columbia Telephone Company, our largest telephone operating subsidiary, and its subsidiary, Okanagan Telephone Company, reported substantial growth of 80,547 telephones, bringing total telephones in service to 1,180,338 at year-end 1972. Total operating revenues amounted to \$227,765,000, an increase of 14% over 1971. Net income after dividends on preference and preferred shares was \$19,762,000, or \$6.11 per average ordinary share outstanding during the year, as compared with a restated \$15,818,000 or \$5.33 for 1971. Gross expenditures on new plant required to support the continuing growth in demand for new and improved grades of service reached a record high of \$132,400,000, and gross investment in telephone plant at year-end exceeded \$961,000,000.

Québec-Téléphone, 57% owned by the Company, had 176,897 telephones in service at December 31, 1972, an increase of 13,671 for the year. Québec-Téléphone invested \$17,900,000 in telephone plant in 1972, and gross investment in telephone plant at year-end exceeded \$161,000,000. Revenues for 1972 were \$37,484,000, an increase of 21% over 1971. Income available for common shareholders amounted to \$4,236,000 in 1972 compared with \$3,153,000 in 1971, inclusive of extraordinary items of income in each year. Earnings per common share, after the extraordinary income items of \$347,000 in 1972 and \$251,000 in 1971, were \$1.98 and \$1.62, respectively.

The economy of the Dominican Republic continues to expand and our wholly-owned subsidiary, Compania Dominicana de Telefonos, C. por A., increased the number of telephones it serves by 10,060 in 1972 and at year-end served 63,224 telephones. Total operating revenues rose 24% to \$12,896,000 in 1972 and net income increased to \$4,875,000, a gain of 29%. To keep pace with the rapidly expanding demand for service, expenditures totaling \$8,800,000 were made for additions and improvements to telephone plant during the year 1972, and at year-end gross telephone plant investment exceeded \$46,500,000.

The year 1973 and the years beyond will see a continuation of the rapid growth in the use of the services provided by our telephone operating company subsidiaries. The large additional investments that will be required to enable the telephone companies to properly serve their customers must be obtained from investors who have confidence in the ability of the companies to earn satisfactory rates of return on such investments. The managements of the Company and the subsidiaries are alert to this requirement.

Our shareholders may be aware of political events which transpired in British Columbia in the last quarter of the year just ended and the speculation resulting therefrom as to the possibility of British Columbia Telephone Company coming under the ownership of the Province of British Columbia. In view of Anglo's ownership of almost 51% of the ordinary shares of that Company, we will continue to follow all developments in the matter with care. The management of the threatened Company has indicated that it will take every step necessary to protect the interests of its shareholders. It should be noted that British Columbia Telephone Company is a Federal company incorporated by Special Act of the Parliament of Canada, and it follows therefore that only the Parliament at Ottawa can legislate as to the acquisition of its assets, or preferred or ordinary shares.

On Behalf of the Board of Directors



President

ANGLO-CANADIAN TELEPHONE COMPANY and Subsidiaries

Consolidated Balance Sheets

December 31, 1972 and 1971 (Note 2)

	Assets	
	1972	1971
		(Thousands of dollars)
FIXED ASSETS:		
Telephone plant, at cost	\$1,156,206	\$1,027,947
Accumulated depreciation	(259,585)	(232,087)
	<u>896,621</u>	<u>795,860</u>
Cost of investments in subsidiaries in excess of underlying book value as of the dates of acquisition	33,636	33,114
	<u>930,257</u>	<u>828,974</u>
 INVESTMENTS AND OTHER ASSETS, at cost	 5,030	 4,580
 CURRENT ASSETS:	 	
Cash and short-term deposits	14,693	3,013
Receivables (including unbilled revenues), less allowances for doubtful accounts of \$835,000 and \$811,000 at the respective dates	37,116	31,364
Materials and supplies, at average cost	14,524	13,117
Prepayments and other	3,042	5,603
	<u>69,375</u>	<u>53,097</u>
 DEFERRED CHARGES:	 	
Unamortized cost of issuing long-term debt	1,290	1,110
Other deferred charges	4,826	4,890
	<u>6,116</u>	<u>6,000</u>
	<u>\$1,010,778</u>	<u>\$ 892,651</u>

Signed on behalf of the Board:

DAVID L. TORREY, Director.

JOHN J. DOUGLAS, Director.

The accompanying notes form an integral part of these consolidated financial statements.

Shareholders' Interest and Liabilities

	1972	1971
	(Thousands of dollars)	
COMMON SHARE EQUITY:		
Common shares (Note 5)	\$ 12,037	\$ 12,037
Premium on common shares	34,218	34,218
Retained earnings (Note 6)	89,757	73,788
Anglo-Canadian common share equity	<u>136,012</u>	<u>120,043</u>
Minority interest in subsidiaries	<u>108,919</u>	<u>102,524</u>
Total common share equity	<u>244,931</u>	<u>222,567</u>
PREFERRED AND PREFERENCE SHARES (See page 8):		
Anglo-Canadian preferred shares	37,500	37,500
Subsidiaries' preference and preferred shares	114,815	95,804
Total preferred and preference shares	<u>152,315</u>	<u>133,304</u>
LONG-TERM DEBT (See page 8)	<u>445,303</u>	<u>376,484</u>
SHORT-TERM DEBT (Note 7):		
Notes payable to banks (substantially at prime rate)	10,027	13,075
Commercial paper	<u>—</u>	<u>22,630</u>
	<u>10,027</u>	<u>35,705</u>
CURRENT LIABILITIES (Note 7):		
Current portion of long-term debt	1,683	1,953
Accounts payable and accrued liabilities	24,274	19,020
Due to affiliates	6,924	5,376
Advance billings and customer deposits	7,279	6,087
Dividends	3,273	2,886
Accrued interest	7,703	6,897
Accrued taxes	<u>3,675</u>	<u>253</u>
	<u>54,811</u>	<u>42,472</u>
DEFERRED CREDITS (Note 8)	<u>103,391</u>	<u>82,119</u>
CONSTRUCTION PROGRAMS AND COMMITMENTS (Notes 10 and 11)	<u>\$ 1,010,778</u>	<u>\$ 892,651</u>

ANGLO-CANADIAN TELEPHONE COMPANY and Subsidiaries

Consolidated Statements of Income

For the years ended December 31, 1972 and 1971 (Note 2)

	<u>1972</u>	<u>1971</u>
	(Thousands of dollars)	
OPERATING REVENUES:		
Local service	\$125,919	\$110,750
Toll service	145,475	123,637
Miscellaneous	14,297	13,149
Provision for doubtful accounts	(2,431)	(1,975)
	283,260	245,561
OPERATING EXPENSES AND TAXES:		
Maintenance	56,442	48,484
Depreciation (Note 4)	52,394	46,353
Traffic	22,995	20,508
Commercial	18,990	16,470
General, administrative and other	32,075	28,081
General taxes	11,444	9,770
Provision for Federal and Provincial		
income taxes—current	8,750	8,937
—deferred	16,848	12,720
	219,938	191,323
Operating income	63,322	54,238
MISCELLANEOUS INCOME—NET (Note 9)	3,022	2,476
	66,344	56,714
INTEREST AND OTHER DEDUCTIONS:		
Interest on long-term debt	26,848	22,556
Other interest and amortization of discount and cost of		
issuing long-term debt	3,956	5,021
	30,804	27,577
Income before outside shareholders' interest	35,540	29,137
OUTSIDE SHAREHOLDERS' INTEREST:		
Preference and preferred dividends of subsidiaries	5,666	4,989
Minority interest in net income of subsidiaries	11,576	9,251
	17,242	14,240
Consolidated net income	\$ 18,298	\$ 14,897

The accompanying notes form an integral part of these consolidated financial statements.

ANGLO-CANADIAN TELEPHONE COMPANY and Subsidiaries

Consolidated Statements of Retained Earnings

For the years ended December 31, 1972 and 1971 (Note 2)

	<u>1972</u>	<u>1971</u>
	(Thousands of dollars)	
BALANCE AT BEGINNING OF YEAR	\$ 74,602	\$ 61,746
As previously reported	814	710
Less—Adjustment of prior years earnings—net of income taxes (Note 2)	73,788	61,036
As restated		
ADD —		
Consolidated net income	18,298	14,897
	<u>92,086</u>	<u>75,933</u>
DEDUCT —		
Dividends paid or provided for on Cumulative Preferred shares		
4½ % Cumulative Preferred shares	281	281
\$2.90 Cumulative Preferred shares	363	363
\$2.65 Cumulative Preferred shares	848	848
\$3.15 Cumulative Preferred shares	567	567
Share issue expenses	270	86
	<u>2,329</u>	<u>2,145</u>
BALANCE AT END OF YEAR (Note 6)	\$ 89,757	\$ 73,788

Consolidated Statements of Changes in Financial Position

For the years ended December 31, 1972 and 1971 (Note 2)

	<u>1972</u>	<u>1971</u>
	(Thousands of dollars)	
SOURCE OF FUNDS:		
From operations		
Consolidated net income	\$ 18,298	\$ 14,897
Add—Expenses not requiring cash outlay		
Depreciation	52,394	46,353
Deferred income taxes	16,848	12,720
Other	3,872	3,993
	<u>91,412</u>	<u>77,963</u>
Sale or issuance of equity securities of subsidiaries	19,011	11,081
Sale or issuance of long-term debt	70,738	88,607
Other	6,840	113
	<u>\$188,001</u>	<u>\$177,764</u>
USE OF FUNDS:		
Capital expenditures	\$154,477	\$131,050
Reduction of long-term debt	1,919	36,858
Dividends paid on preferred shares	2,059	2,059
Decrease in short-term debt	25,678	8,399
Increase (decrease) in working capital	3,868	(602)
	<u>\$188,001</u>	<u>\$177,764</u>

The accompanying notes form an integral part of these consolidated financial statements.

ANGLO-CANADIAN TELEPHONE COMPANY and Subsidiaries

Summary of Preferred and Preference Shares and Long-Term Debt

December 31, 1972

	Shares	Amount (Thousands of dollars)
PREFERRED AND PREFERENCE SHARES:		
Anglo-Canadian Preferred shares, par value \$50 per share cumulative dividend. Authorized 1,000,000 shares redeemable at \$53 per share, outstanding 750,000 shares—		
4½% Cumulative Preferred shares	125,000	\$ 6,250
\$2.90 Cumulative Preferred shares	125,000	6,250
\$2.65 Cumulative Preferred shares	320,000	16,000
\$3.15 Cumulative Preferred shares	180,000	9,000
		<u>37,500</u>
Subsidiaries' Preference and Preferred shares		
British Columbia Telephone Company—		
6% Cumulative Preference and Preferred shares (\$100 par value)	5,500	
4¾% to 5¾% Cumulative Redeemable Preferred shares (\$100 par value) ..	48,000	
4.84% to 7.04% Cumulative Redeemable Preferred shares (\$25 par value) ..	50,000	
Okanagan Telephone Company (Subsidiary of British Columbia Telephone Company)—		
40¢ Cumulative Redeemable Preferred shares (\$9 par value)	450	
Québec-Téléphone—		
5% Cumulative Sinking Fund Redeemable Preferred shares (\$20 par value)	1,891	
4¾% Cumulative Redeemable Preferred shares (\$20 par value)	8,000	
6.20% Cumulative Redeemable Convertible Subordinate Preferred shares Series A (\$15 par value)	974	
		<u>114,815</u>
Total preferred and preference shares		<u>\$152,315</u>
 LONG-TERM DEBT:		
Anglo-Canadian Telephone Company—		
6½% Sinking Fund Debentures, Series A, due 1983	\$ 2,600	
Bank term loan, at bank's prime rate plus 1%, due 1974-1976	8,500	
British Columbia Telephone Company—		
First Mortgage Bonds 4¾% to 9½%, due 1975-1995	371,809	
Okanagan Telephone Company (Subsidiary of British Columbia Telephone Company)—		
General Mortgage Sinking Fund Bonds 5% to 6½% due 1975-1986	5,720	
Québec-Téléphone—		
First Mortgage Redeemable Sinking Fund Bonds 5½% to 9½% due 1982-1993	45,312	
General Mortgage Sinking Fund Bonds 5% to 6% due 1976 to 1983	7,579	
Compania Dominicana de Telefonos, C. por A.—		
Notes payable 6% to 8½% due 1974-1983	9,987	
Total principal amount		<u>451,507</u>
Less—Unamortized discount on long-term debt		6,204
Total long-term debt		<u>\$445,303</u>

The accompanying notes form an integral part of these consolidated financial statements.

Notes to Consolidated Financial Statements

For the years ended December 31, 1972 and 1971

1. PRINCIPLES OF CONSOLIDATION

All subsidiaries have been included in the consolidated financial statements. Dominican pesos have been converted at par with the Canadian dollar.

The subsidiaries and equity ownership at December 31, 1972 are as follows:	Percent Owned
British Columbia Telephone Company	50.69
Canadian Telephones and Supplies Ltd.	100.00
Compania Dominicana de Telefonos, C. por A.	100.00
Dominion Directory Company Limited	100.00
Québec-Téléphone	56.75
York Investment Co. Ltd.	100.00

2. 1971 FINANCIAL STATEMENTS

In 1972, British Columbia Telephone Company changed its method of accounting for costs of employee vacations. Prior to 1972, these costs were recorded when the vacations were taken whereas they are now recorded as the vacations are earned. The 1971 consolidated financial statements have been restated to reflect this change.

3. COMPAÑIA DOMINICANA DE TELEFONOS, C. POR A.

Compania Dominicana de Telefonos, C. por A. is a telephone operating company in the Dominican Republic. The Company's investment in and amounts due from Compania Dominicana at December 31, 1972 and 1971 amounted to \$9,537,000 and the net assets of Compania Dominicana at these dates were \$27,562,000 and \$23,230,000 respectively. Net income of Compania Dominicana included in consolidated net income was \$4,875,000 in 1972 and \$3,765,000 in 1971.

Under the terms of the original contract made with the Government of the Dominican Republic, the Dominican Government has the right to acquire, at any time, the telephone, telegraph and radio-telegraph property and related assets and liabilities of Compania Dominicana at underlying book value.

4. DEPRECIATION OF TELEPHONE PLANT

Depreciation is provided on the straight-line method, for book purposes, based on engineering studies of the estimated lives and salvage value of the various classes of depreciable property.

5. COMMON SHARES, \$10 par value

Authorized — 1,700,000 shares.

Issued and outstanding — 1,203,685 shares.

6. RETAINED EARNINGS

Under the terms (the most restrictive) of the Trust Deed pursuant to which the 6½% Sinking Fund Debentures Series A were issued by Anglo-Canadian Telephone Company, \$4,789,000 of the consolidated retained earnings of \$89,757,000 at December 31, 1972 were restricted as to the payment of common dividends.

7. SHORT-TERM DEBT

The short-term debt has been used, directly or indirectly, to finance the subsidiaries' construction programs. This short-term debt has been excluded from current liabilities because it is expected that it will in time be refinanced by issues of long-term debt or issues of equity capital. It is also expected that the companies will continue to enter into new short-term obligations, as the construction programs continue.

8. DEFERRED CREDITS

Certain subsidiaries are presently claiming for income tax purposes capital cost allowances in excess of depreciation charged to the accounts and other expenditures which are capitalized in their accounts. The resulting reduction in income taxes is deferred. The balance of taxes deferred by the subsidiaries included in Deferred Credits amounted to \$101,503,000 and \$81,794,000 as of December 31, 1972 and 1971, respectively.

9. INTEREST CHARGED TO CONSTRUCTION

Miscellaneous income includes a credit for interest charged to construction of \$2,107,000 in 1972 and \$1,966,000 in 1971.

10. PENSION PLANS

All companies maintain funded pension plans for the benefit of substantially all employees. The actuarially determined aggregate cost of maintaining the pension plans, including amortization of unfunded costs over periods not exceeding 25 years from January 1, 1965, was \$7,830,000 and \$6,283,000 in 1972 and 1971, respectively. Such amounts were paid to trustees. The pension fund assets substantially exceeded the actuarially computed value of the vested pension benefits of the plans at December 31, 1972, the latest valuation date. The present value of the estimated unfunded costs amounted to approximately \$15,922,000 at December 31, 1972.

11. CONSTRUCTION PROGRAMS

The telephone subsidiaries' 1973 construction programs as now planned approximate \$192,000,000 for which substantial purchase commitments have been made. These construction programs will be financed by cash available from operations and short-term debt pending permanent financing.

Auditors' Report

**TO THE SHAREHOLDERS OF
ANGLO-CANADIAN TELEPHONE COMPANY:**

We have examined the consolidated balance sheet and the summary of preferred and preference shares and long-term debt of ANGLO-CANADIAN TELEPHONE COMPANY (a Quebec company) AND SUBSIDIARIES as of December 31, 1972, and the related consolidated statements of income, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have previously examined and reported on the consolidated financial statements for the preceding year.

In our opinion, the accompanying consolidated financial statements present fairly the financial position of Anglo-Canadian Telephone Company and subsidiaries as of December 31, 1972 and the results of operations and the changes in financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year, after giving retroactive effect to the change in accounting for accrued vacation pay referred to in Note 2 to the consolidated financial statements.

**ARTHUR ANDERSEN & Co.,
Chartered Accountants.**

Montreal, January 31, 1973.

